

Message Text

LIMITED OFFICIAL USE

PAGE 01 STATE 201375

ORIGIN EB-08

INFO OCT-01 IO-13 ISO-00 SSO-00 INRE-00 NSCE-00 AF-10
ARA-10 EA-10 EUR-12 NEA-10 AGR-01 L-03 FRB-03
OMB-01 ITC-01 SP-02 AID-05 CIAE-00 COME-00 INR-10
LAB-04 NSAE-00 OIC-02 SIL-01 OPIC-03 STR-07
TRSE-00 CEA-01 SS-15 XMB-02 INT-05 ICAE-00 /140 R

DRAFTED BY EB/IFD/OIA:DVGRANT:ME

APPROVED BY EB/IFD/OIA:MPBOERNER

TREASURY:JGRIFFIN

-----017828 092057Z /45

O 092031Z AUG 78

FM SECSTATE WASHDC

TO USMISSION GENEVA IMMEDIATE

LIMITED OFFICIAL USE STATE 201375

E.O. 11652: N/A

TAGS: UNCTAD, EINV

SUBJECT: UNCTAD: EXPERT MEETING ON FINANCE FOR DEVELOP-
MENT, AUGUST 7-11

REF: GRANT/JONES TELECON OF 8/9/78

FOLLOWING IS CLEARED VERSION OF POSITION PAPER FOR SUBJECT
MEETING:

1. ISSUE

LAST FALL, THE U.S. CO-SPONSORED A SRI LANKAN-DRAFTED
RESOLUTION ON INVESTMENT INSURANCE AT THE 32ND GENERAL
ASSEMBLY. THAT RESOLUTION CALLED UPON THE SECRETARY
GENERAL TO: (1) CONVENE A GROUP OF EXPERTS TO STUDY THE
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 STATE 201375

FEASIBILITY AND DESIRABILITY OF CREATING A MULTILATERAL
INVESTMENT INSURANCE AGENCY; AND (2) EXAMINE THE POSSIBLE
ENLARGEMENT OF THE GUARANTEE POWERS OF EXISTING INTERNA-
TIONAL FINANCIAL INSTITUTIONS. THE RESOLUTION IS AIMED
AT PROMOTING FOREIGN PRIVATE INVESTMENT FLOWS AS MEANS
FOR THE TRANSFER OF REAL RESOURCES TO THE LDCS. THE
UNCTAD GROUP OF EXPERTS IS TO ASSIST THE SECRETARY GENERAL

IN PREPARING A REPORT ON THIS SUBJECT, INCLUDING CONCLUSIONS AND RECOMMENDATIONS.

2. U.S. POSITION

THE U.S. POSITION REMAINS THAT A MECHANISM FOR PROVIDING MULTILATERAL INVESTMENT INSURANCE WOULD BE USEFUL IN FACILITATING FLOWS OF PRIVATE INVESTMENT CAPITAL TO DEVELOPING COUNTRIES, PARTICULARLY IN THE CRITICAL FUELS AND NONFUEL MINERALS SECTOR. SUCH A MECHANISM COULD TAKE A VARIETY OF FORMS. IT COULD BE AN INTERNATIONAL INSTITUTION, IT COULD RELATE TO AN EXISTING IFI, OR IT COULD BE BASED UPON AD HOC PARTICIPATION BY EXISTING NATIONAL INSURANCE AGENCIES IN SELECTED PROJECTS. FURTHER, THE MECHANISM COULD PROVIDE EITHER DIRECT INSURANCE OR REINSURANCE OF COVERAGE ISSUED BY THE NATIONAL AGENCIES. THE U.S. EARLIER ADVOCATED A MULTILATERAL INSURANCE FACILITY WITH THE KEY ELEMENTS OF THE IIIA, A PROPOSAL WE SHOULD BE PREPARED TO REEXAMINE ALONG WITH OTHER POSSIBILITIES. IF THERE IS SUPPORT AMONG THE GROUP OF EXPERTS FOR A DIRECT INSURANCE SCHEME, THE U.S. SHOULD NOTE THAT THE DEVELOPMENT COMMITTEE EARLIER DISCUSSED THIS ISSUE AND MAY WISH TO CONTINUE TO BE INVOLVED. THE DELEGATION SHOULD ENCOURAGE AND PARTICIPATE ACTIVELY IN A FULL DISCUSSION OF ALL THESE AND ANY OTHER REASONABLE APPROACHES TO THIS ISSUE BY THE GROUP OF EXPERTS. WHILE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 STATE 201375

THE RESOLUTION ESTABLISHING THE GROUP OF EXPERTS CALLED UPON THE SECRETARY GENERAL TO PREPARE A REPORT CONTAINING CONCLUSIONS AND RECOMMENDATIONS, THIS COULD BEST BE ACCOMPLISHED BY MEANS OF A GROUP OF EXPERTS REPORT THAT SET FORTH IN FULL THE ALTERNATIVE APPROACHES TO MULTILATERAL INSURANCE.

ALTHOUGH THE US REPRESENTATIVES SHOULD BE PREPARED TO IDENTIFY AND EXPLAIN PROS AND CONS OF ANY PROPOSAL, THE US REPRESENTATIVES SHOULD NOT CONCUR IN A GROUP OF EXPERTS REPORT CONTAINING CONCLUSIONS OR RECOMMENDATIONS FOR ANY PARTICULAR SCHEME OR ELEMENTS OF A SCHEME, BUT SHOULD TRY TO EXCLUDE FROM THE REPORT ANY ENDORSEMENT OF ANY ONE SCHEME. THE US REPRESENTATIVES SHOULD IN ANY CASE AVOID BEING IDENTIFIED WITHIN THE REPORT AS FAVORING A PARTICULAR APPROACH.

3. BACKGROUND AND DISCUSSION

THE U.S. HAS LONG SUPPORTED THE IDEA OF A MULTILATERAL INVESTMENT INSURANCE FACILITY INSURING AGAINST POLITICAL RISK TO PROMOTE PRIVATE INVESTMENT FLOWS TO

DEVELOPING COUNTRIES. IN THE EARLY 1970'S THE U.S. WAS ONE OF THE PRINCIPAL SUPPORTERS OF A PROPOSAL IN THE WORLD BANK TO CREATE THE INTERNATIONAL INVESTMENT INSURANCE AGENCY (IIIA). THE IIIA WAS DESIGNED TO ENCOURAGE

PRIVATE INVESTMENT IN LDCS THROUGH DIRECT INSURANCE. KEY ELEMENTS OF THE IIIA WERE (1) PARTICIPATION BY LDCS IN RISK-SHARING; (2) A LINK BETWEEN THE IIIA AND THE WORLD BANK, THUS ESTABLISHING A PRESUMPTION THAT A VIOLATION OF OBLIGATIONS TO THE IIIA WOULD ALSO BE A VIOLATION OF OBLIGATIONS TO THE WORLD BANK; (3) WEIGHTED VOTING RIGHTS, WITH DCS HAVING 65 PERCENT OF THE VOTES; (4) SUBROGATION; AND (5) COMPULSORY ARBITRATION. HOWEVER, MEMBER COUNTRIES FAILED TO REACH A CONSENSUS ON THESE KEY ELEMENTS. THE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 STATE 201375

IIIA WAS EXTENSIVELY DISCUSSED IN THE DEVELOPMENT COMMITTEE.

AT UNCTAD IV IN NAIROBI, THE U.S. PROPOSED CREATION OF AN INTERNATIONAL RESOURCES BANK (IRB) TO ENCOURAGE PRIVATE INVESTMENT IN LDC MINERAL DEVELOPMENT PROJECTS. IN ADDITION TO ACTING AS A FINANCER AND CATALYST OF SUITABLE PROJECTS, THE IRB, THROUGH INSURING AGAINST POLITICAL RISK, WOULD HAVE "GUARANTEED" CONTRACTUAL PERFORMANCE. THE PROPOSAL FAILED TO OBTAIN A MAJORITY VOTE AT UNCTAD IV. FURTHER, A 1977 IBRD STAFF STUDY RECOMMENDED THAT THE IDEA SHOULD BE DEFERRED, PENDING THE STUDY OF OTHER MEANS OF PROMOTING PRIVATE MINERALS INVESTMENT. THE U.S. HAS SINCE DROPPED ITS SPONSORSHIP OF THE PROPOSAL.

EARLIER THIS SPRING, THE EUROPEAN COMMUNITY CONSIDERED A SCHEME FOR INSURING PRIVATE INVESTMENTS IN THE MINERAL SECTOR IN DEVELOPING COUNTRIES. ACCORDING TO THE SCHEME, THE EC WOULD ATTEMPT TO ENCOURAGE A HIGHER LEVEL OF SUCH INVESTMENTS THROUGH GENERAL AGREEMENTS ON INVESTMENT PROTECTION INVOLVING THE HOST COUNTRIES, THE INVESTORS, AND THE EC. AT THE LOWEST LEVEL OF PROTECTION, THE APPROACH WOULD INVOLVE A BASIC AGREEMENT ON TREATMENT OF INVESTMENT WITHIN THE HOST COUNTRY. THE NEXT STEP WOULD PROVIDE INVESTMENT INSURANCE THROUGH PROJECT CONVENTIONS INVOLVING THE EC. IN CASES WHERE THE HOST COUNTRY HAS A CLEAR AND STABLE SET OF RULES FOR FOREIGN DIRECT INVESTMENT, THERE MIGHT BE GUARANTEES FOR SPECIFIC PROJECTS, APART FROM ANY GENERAL AGREEMENTS. WHILE THE PROPOSAL INITIALLY RECEIVED A FAVORABLE RESPONSE, CERTAIN KEY COUNTRIES HAVE SINCE EXPRESSED RESERVATIONS, AND CONSEQUENTLY THE FUTURE OF THE SCHEME IS NOW IN DOUBT. LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 05 STATE 201375

THE QUESTION OF MULTILATERAL INVESTMENT MAY BE ON THE AGENDA FOR DISCUSSION AT UNCTAD V IN MAY 1979.

4. OTHER DEVELOPED COUNTRY POSITION

FRANCE, GERMANY AND A SMALL NUMBER OF OTHER OECD COUNTRIES ABSTAINED ON THE SRI LANKA RESOLUTION, CONTENDING THAT THE STUDY WOULD DUPLICATE SIMILAR WORK IN OTHER FORUMS SUCH AS THE IBRD AND IMF. THE WEO COUNTRIES MAY HAVE MORE FUNDAMENTAL RESERVATIONS ABOUT MULTILATERAL INVESTMENT INSURANCE, ESPECIALLY SINCE SATISFACTORY ANSWERS DO NOT NOW EXIST TO THE PROBLEMS NOTED ABOVE THAT LED TO THE DEMISE OF THE IIIA PROPOSAL. FURTHER, MANY WEO COUNTRIES HAVE RESISTED PAST PROPOSALS TO "HARMONIZE" THEIR INVESTMENT INSURANCE POLICIES. EXCEPT FOR ARRANGEMENTS ON A PROJECT BY PROJECT OR SECTORAL BASIS, THERE IS LITTLE SUPPORT APART FROM THE U.S. FOR ANY SCHEME BASED ONLY ON REINSURANCE.

5. LDC POSITION

THE IIIA PROPOSAL FAILED PARTLY DUE TO LDC DEMANDS THAT THE DCS UNDERTAKE MOST OF THE FINANCING FOR THE PROPOSED INSTITUTION. CERTAIN LDCS, PARTICULARLY THE LATINS, OPPOSED ANY SCHEME THAT ALLOWED INTERNATIONAL ARBITRATION OR SUBROGATION IN THE EVENT OF CLAIMS. NEVERTHELESS, IT IS SIGNIFICANT THAT THE SRI LANKA RESOLUTION ATTRACTED THE SUPPORT OF MORE THAN 100 NATIONS. THIS MAY INDICATE GREATER LDC RECEPTIVITY AND FLEXIBILITY TO THE IDEA OF MULTILATERAL INSURANCE.

6. TALKING POINTS

-- THE U.S. BELIEVES THAT THE CREATION OF A MULTILATERAL INVESTMENT INSURANCE FACILITY COULD FACILITATE

LIMITED OFFICIAL USE

PAGE 06 STATE 201375

GREATER FLOWS OF PRIVATE INVESTMENT CAPITAL TO THE LESS DEVELOPED COUNTRIES, ESPECIALLY IN THE CRITICAL MINERALS SECTOR.

-- WE LOOK UPON THESE MEETINGS AS AN INITIAL STEP IN OUR EXAMINATION OF THE QUESTION OF MULTILATERAL INVESTMENT INSURANCE, AND HOPE THAT OUR COLLEAGUES WILL

CONSIDER THIS QUESTION SERIOUSLY. IN THIS CONNECTION,
WE WOULD BE INTERESTED IN LEARNING OTHER COUNTRIES'
VIEWS ON THIS SUBJECT.

-- IF OUR INTEREST IS SHARED BY OTHERS, WE WOULD
SUPPORT AN UNCTAD STUDY OF THE POSSIBLE ALTERNATIVE
MEANS OF ACHIEVING MULTILATERAL INVESTMENT INSURANCE
COOPERATION AND HOW EACH WOULD AFFECT INTERNATIONAL
FLOWS OF INVESTMENT CAPITAL. THIS STUDY SHOULD TAKE
INTO ACCOUNT THE VIEWS EXPRESSED BY EXPERTS AT THE

CURRENT MEETING. THE PAPER SHOULD INCLUDE A LIST OF
OPTIONS, WHICH COULD BE DISCUSSED AT A FURTHER MEETING
OF EXPERTS AND/OR REPRESENTATIVES FROM GOVERNMENTS. CHRISTOPHER

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCE, DOCUMENTS, TEXT, MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 09 aug 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE201375
Document Source: CORE
Document Unique ID: 00
Drafter: DVGRANT:ME
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780326-0571
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780881/aaaacpyp.tel
Line Count: 238
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: a0d9ea65-c288-dd11-92da-001cc4696bcc
Office: ORIGIN EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 27 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1789238
Secure: OPEN
Status: NATIVE
Subject: UNCTAD: EXPERT MEETING ON FINANCE FOR DEVELOP- MENT, AUGUST 7-11
TAGS: EINV, UNCTAD
To: GENEVA
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/a0d9ea65-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014